

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**

**SOUTH DAKOTA REAL ESTATE COMMISSION**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2008 and 2007**

**EAST, VANDER WOUDE, GRANT & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS  
707 WEST 11<sup>TH</sup> STREET  
SIOUX FALLS, SD 57104**

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION  
SOUTH DAKOTA REAL ESTATE COMMISSION  
LISTING OF COMMISSION MEMBERS  
JUNE 30, 2008**

**Officials of the Commission:**

Chairman :	Brian Jackson
Vice-Chairman:	Eileen Fisher
Commissioners:	Dennis Eismach Charles Larkin Paula Lewis
Executive Director:	Dee Jones Noordermeer

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION  
SOUTH DAKOTA REAL ESTATE COMMISSION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable M. Michael Rounds  
Governor of South Dakota and  
Paul Kinsman, Secretary  
South Dakota Department of  
Revenue and Regulation and  
South Dakota Real Estate Commission  
Pierre, South Dakota

We have audited the accompanying financial statements of the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota, as of June 30, 2008 and 2007 and for the years then ended, as listed in the table of contents, and have issued our report thereon dated October 2, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Current Audit Finding and Response labeled as 2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2008-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Commission's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Finding and Response. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and governing board and management of the South Dakota Real Estate Commission and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

*East, Vander Woude, Grant & Co. P.C.*

East, Vander Woude, Grant & Co., P.C.  
Sioux Falls, South Dakota  
October 2, 2008

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION  
SOUTH DAKOTA REAL ESTATE COMMISSION  
SCHEDULE OF PRIOR AUDIT FINDING**

**INTERNAL CONTROL – REPORTABLE CONDITION**

Finding 2006-01:

A reportable condition was noted for a lack of segregation of duties regarding cash collections.

Analysis:

There is a lack of segregation of duties regarding cash collections due to lack of personnel. Revenue collections are not properly segregated nor have adequate controls been established to compensate for the lack of personnel.

Recommendation:

We recommend that the Commission implement controls where possible.

Status:

Situation mitigated by Commission and State oversight and due to nature of real estate licensing and additional controls over revenue receipts.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION  
SOUTH DAKOTA REAL ESTATE COMMISSION  
SCHEDULE OF CURRENT AUDIT FINDING AND RESPONSE**

**INTERNAL CONTROL SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS**

Finding No. 2008-01:

Auditor drafting of the financial statements and related footnote disclosures.

Analysis:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the state as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the Commission's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with an organization of your size. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Commission's management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Auditee's Corrective Action Plan:

We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk.

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable M. Michael Rounds, Governor of South Dakota and  
Paul Kinsman, Secretary, State of South Dakota Department of  
Revenue and Regulation and  
South Dakota Real Estate Commission  
Pierre, South Dakota

We have audited the accompanying statements of net assets - cash basis of the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota, as of June 30, 2008 and 2007 and the related statements of revenues collected, expenses paid and changes in net assets - cash basis and cash flows for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1, these financial statements present only the South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota and do not purport to, and do not present fairly the financial position of the State of South Dakota as of June 30, 2008, and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only an enterprise fund and not the State of South Dakota, management has chosen not to present a Management's Discussion and Analysis for the enterprise fund that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the South Dakota Real Estate Commission as of June 30, 2008 and 2007, and the related statements of revenue collected, expenses paid and changes in net assets and cash flows for the years ended June 30, 2008 and 2007 on the cash basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 2008 on our consideration of the South Dakota Real Estate Commission's internal control over financial reporting and our tests of its compliance with laws and regulations, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*East, Vander Woude, Grant & Co. P.C.*

East, Vander Woude, Grant & Co., P.C.  
Sioux Falls, South Dakota  
October 2, 2008

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**STATEMENT OF NET ASSETS - CASH BASIS**  
**JUNE 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash, on deposit with State Treasurer		
Recovery Fund Account (Reserved per SDCL 36-21A-101)	\$ 100,000	\$ 100,000
Unrestricted	<u>636,176</u>	<u>602,614</u>
Total cash and current assets	<u>736,176</u>	<u>702,614</u>
 <b>LIABILITIES</b>		
Current liabilities	<u>-</u>	<u>-</u>
 <b>NET ASSETS</b>		
Restricted due to recovery fund account	100,000	100,000
Unrestricted	<u>636,176</u>	<u>602,614</u>
Total net assets	<u>\$ 736,176</u>	<u>\$ 702,614</u>

See Notes to Financial Statements.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**STATEMENTS OF REVENUES COLLECTED, EXPENSES PAID**  
**AND CHANGES IN NET ASSETS - CASH BASIS**  
**YEARS ENDED JUNE 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES COLLECTED</b>		
Licenses, permits and fees	\$ 439,796	\$ 317,801
Seminars	74,960	82,170
Book, directory and code book sales	13,023	13,198
Other revenues	26,088	29,571
<b>TOTAL OPERATING REVENUES COLLECTED</b>	<u>553,867</u>	<u>442,740</u>
<b>OPERATING EXPENSES PAID</b>		
Salaries	196,943	167,643
Legal and professional fees	141,825	121,331
Employee benefits	55,548	49,983
Travel	52,954	41,595
State services provided	25,202	24,033
Printing and newsletter	18,633	15,952
Occupancy	17,620	18,472
Postage	10,921	10,079
Commission member per diem	7,620	7,560
Dues and subscriptions	6,764	7,549
Equipment purchased	6,601	1,570
Telephone	4,872	4,900
Seminars and continuing education	4,816	5,890
Miscellaneous	3,609	1,757
Supplies	1,601	1,685
Audit	-	2,495
<b>TOTAL OPERATING EXPENSES PAID</b>	<u>555,529</u>	<u>482,494</u>
<b>OPERATING INCOME (LOSS)</b>	(1,662)	(39,754)
<b>NONOPERATING INCOME</b>		
Interest income	35,224	22,864
<b>CHANGE IN NET ASSETS</b>	<u>33,562</u>	<u>(16,890)</u>
<b>BEGINNING NET ASSETS</b>	<u>702,614</u>	<u>719,504</u>
<b>ENDING NET ASSETS</b>	<u><u>\$ 736,176</u></u>	<u><u>\$ 702,614</u></u>

See Notes to Financial Statements.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 527,779	\$ 413,169
Payments to Suppliers	(270,216)	(233,275)
Payments to Employees	(260,111)	(225,186)
Internal Activity - Payments to Other Funds	(25,202)	(24,033)
Other Receipts	<u>26,088</u>	<u>29,571</u>
Net Cash Provided (Used) by Operating Activities	(1,662)	(39,754)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	<u>35,224</u>	<u>22,864</u>
 Net Increase (Decrease) in Cash	33,562	(16,890)
 Cash Balance - Beginning	<u>702,614</u>	<u>719,504</u>
 Cash Balance - Ending	<u><u>\$ 736,176</u></u>	<u><u>\$ 702,614</u></u>

See Notes to Financial Statements.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 and 2007**

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS**

The South Dakota Real Estate Commission is an enterprise fund of South Dakota state government within the Department of Revenue and Regulation. These financial statements present only this enterprise fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only an enterprise fund and not the State of South Dakota, management has chosen not to present a Management's Discussion and Analysis for the enterprise fund that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. The Commission has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The South Dakota Real Estate Commission, which consists of five members appointed by the Governor, administers and enforces the rules and regulations regarding the real estate industry. The Commission is responsible for the examination, licensure / certification and renewal of the licenses.

The Commission is required by statute to maintain a deposit of \$100,000 with the State Treasury exclusively for the payment of unsatisfied judgments against licensees. This amount is not available for use in the operation of the Commission.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting:**

The Commission's accounts are maintained on a cash basis and the accompanying financial statements reflect only cash received and disbursed. Therefore, receivables and payables, accrued income and expenses and depreciation, which may be material in amount, are not reflected in the accompanying financial statements which are not intended to present the financial position or results of operations in conformity with generally accepted accounting principles.

**Fund Accounting:**

The Commission is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 and 2007**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Commission distinguishes operating revenues and expenses from nonoperating items. Operating revenues relate to activities associated with real estate professional's licenses and renewals. Expenses include the costs of operating the Commission, including personnel, contractual services, and administration. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Nonoperating revenues include interest income from cash invested in state accounts.

**Application of Net Assets:**

It is the Commission's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Fund Revenue and Expense Classifications:**

In the Statement of Revenues Collected, Expenses Paid and Changes in Net Assets-Cash Basis, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**Budgets:**

The Commission is not legally required to adopt a budget. Therefore, budgetary data is not included in the basic financial statements.

**Cash and Cash Equivalents:**

The Commission's cash is represented by a participating interest in the State's pooled investment fund held by the State Treasurer. Funds not required for current operations are required by SDCL 4-5-23 to be transferred to the state investment officer, who is restricted by SDCL 4-5-26 to investing the funds in certain types of investments. The statutes do not limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. However, the Investment Council has a formal policy that limits this portfolio to an average duration of 2.88 years and no holdings maturity can exceed five years.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 and 2007**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Management of the State's pooled investment fund is the statutory responsibility of the South Dakota Investment Council, and responsibility for reporting investment risk disclosures lies with the State of South Dakota. Disclosure of this information may be found in the notes to the State of South Dakota's annual financial report.

**NOTE 3. RETIREMENT PLAN**

All employees, except for those working less than 20 hours per week and seasonal help, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple-employer defined benefit pension plan established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Commission's share of contributions to the SDRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$11,753, \$10,019 and \$9,243, respectively, equal to the required contributions each year.

**NOTE 4. COMPENSATED ABSENCES**

The Commission allows employees to earn annual leave and sick leave. Full-time employees earn 15 days annual leave per year which can be accumulated to a maximum of 30 days, except for employees with more than 15 years of employment, who earn 20 days annual leave per year which can be accumulated to a maximum of 40 days. Upon termination, employees receive payment for their accumulated annual leave. Employees earn 14 days sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed 480 hours.

As of June 30, 2008, the liability for unused annual leave and unused sick leave was \$18,385 and \$15,538 respectively. As of June 30, 2007, the liability for unused annual leave and unused sick leave was \$15,465 and \$12,929 respectively.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION**  
**SOUTH DAKOTA REAL ESTATE COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 and 2007**

**NOTE 5. OPERATING LEASE**

Effective March 1, 2007, the Commission entered into an operating lease for office space for \$1,157.50 per month. The term of this lease is for 10 years terminating on February 28, 2015. The Commission is responsible for certain utilities.

Rent payments are payable from licensing fees. Future minimum lease payments are as follows for each of the remaining years ending June 30,

	Operating Lease
2009	\$ 13,890
2010	13,890
2011	13,890
2012	13,890
2013	13,890
2014-2015	<u>23,150</u>
Total	<u>\$ 92,600</u>

Total rent expense for the lease is as follows:

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Minimum lease payments	\$ 13,890	\$ 13,890
Contingent (utilities)	<u>458</u>	<u>282</u>
	<u>\$ 14,348</u>	<u>\$ 14,172</u>

**NOTE 6. RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Commission participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, 4) coverage for workers' compensation benefits through the State's Worker's Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Statement.